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C O N F I D E N T I A L SECTION 01 OF 04 BRASILIA 001550

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TAGS: [ETRD](#) [BR](#) [FTAA](#)

SUBJECT: BRAZIL CONTINUES TO DEBATE TRADE POLICY ON EVE OF  
USTR ZOELLICK'S VISIT

REF: BRASILIA 01321

Classified By: Economic Officer Janice Fair for Reasons 1.5 (b) and (d)

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1. (U) This is an Action Request; please see para 15.

12. (SBU) Summary. In the run-up to USTR Zoellick's May 27-28 visit, debate has intensified publicly, within the GoB, and perhaps most of all in the Foreign Ministry, on Brazil's participation in the FTAA negotiations. A number of policy options are reportedly under consideration, including delay or reformulation of the FTAA negotiations, and tying the FTAA negotiations to a parallel, more limited four-plus-one (Mercosul-U.S.) agreement. FTAA skeptics within Brazil's Ministry of Foreign Relations (Itamaraty) appear pitted against certain other ministries, such as Finance, Agriculture and to some extent the Ministry of Development, which favor a more forward leaning GoB posture in the FTAA negotiations. President Lula is expected to convene an interministerial meeting to forge a policy consensus before USTR Zoellick's arrival. Itamaraty has indicated that USTR Zoellick should be prepared to discuss the possibility of a four-plus-one negotiation during his meeting with Minister Amorim on May 28. End Summary.

Who's In Charge?

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13. (SBU) Despite campaign rhetoric asserting that the FTAA would result in Brazil's "annexation" to the United States, President Lula after assuming power quickly committed to continuing negotiations in good faith. However, the GoB's commitment to the negotiations came under new question following Brazil's decision not to submit initial offers in the areas of services, investment and government procurement according to the previous negotiation schedule. Since then, the internal policy debates have plainly intensified.

14. (C) Major re-casting of the GoB's official attitudes could be on the way. Reorganization and personnel changes within Itamaraty have placed officials with known anti-FTAA sentiments in apparent de facto control of Brazil's negotiating team. Leading this group is Samuel Pinheiro Guimaraes, currently the number two at Itamaraty as Secretary-General. Pinheiro Guimaraes was exiled to an

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academic sinecure by then-Foreign Minister Celso Lafer during the previous administration because of his outspoken public posture against the FTAA. Guimaraes' advisor, Regis Percy Arslanian, was part of the Brazilian delegation attending the recent Trade Negotiating Committee meeting in Puebla, Mexico; Arslanian was DCM of Brazil's Embassy in Washington until 2001.

15. (C) In what appears to be a consolidation of control, in early May, responsibility for FTAA negotiations was removed from Clodoaldo Huguene, Undersecretary General for Integration, Economy and Trade Affairs and previously co-chair of the FTAA at the vice-ministerial level along with DUSTR Peter Allgeier. In the move, FTAA as well as Mercosul-EU negotiations were shifted to Itamaraty's new Undersecretariat for South America Affairs (ref a), headed by Luiz Felipe Macedo Soares,

Brazil's former Ambassador to Mexico. On May 14, Huguene's assistant, Pompeu Neto, implied that Huguene was removed because of his pro-FTAA views; Huguene had argued unsuccessfully that Brazil should comply with the schedule for initial offers.

16. (U) On May 16, Itamaraty announced that Adhemar Bahadian, Brazil's Consul General in Buenos Aires and a personal friend of Minister Amorim and Pinheiro Guimaraes, would take over the FTAA co-chair responsibilities. Bahadian is reported to have extensive trade experience including negotiations under GATT, work at the World Intellectual Property Organization and he served as Amorim's alternate in the WTO from 2000 to 2002. Bahadian was a Brazilian point person on Summit of the Americas in the late nineties and has served a total of ten years at the United Nations. He was an Embassy contact while he was Chief of Staff for the Secretary General from 1994 to 1996. Carlos Alberto Simas Magalhaes will remain Brazil's lead FTAA negotiator, a position to which he was named in February by the new GoB.

#### Internal Policy Debate

17. (C) Pinheiro Guimaraes' evidently ascending role over FTAA policy within Itamaraty does not bode well for close, collaborative efforts on FTAA. Neto expressed to us his judgment that the intellectual formation of Pinheiro Guimaraes and his allies dates back to the seventies and is characterized by suspicion that the United States aims to dominate the hemisphere, as well as by an inward-focus relating to economic development. Despite the economic benefits that Brazil could gain through an FTAA, Neto claims that these decision-makers are guided by their suspicion and ideological aversion to projects supported by the United States.

18. (C) In a strange twist, other ministries within the government now seem to be out in front of Itamaraty on trade liberalization. After Finance Minister Palocci's recent trip to Washington, press reported (and Neto has confirmed to us) that the Finance Ministry has been trying to insert itself more into trade deliberations out of concern over Itamaraty's faltering support for the FTAA. Chief of Staff Dirceu confirmed to Ambassador during their May 6 meeting that President Lula intends to convene a meeting with ministers prior to USTR Zoellick's arrival in order to arrive at a single GoB position regarding trade strategy.

#### FTAA Policy Options

19. (SBU) As reported in reftel, Itamaraty interlocutors claim that proceeding with the FTAA status quo is untenable for Brazil, given the current impasse in WTO Doha Development Agenda (DDA) negotiations, the absence of key Brazilian issues within the scope of FTAA negotiations, and public hostility toward the FTAA. Specifically, they point to the unwillingness of the United States to negotiate new disciplines covering domestic support for agriculture and unfair trade remedies within the FTAA, and the U.S. market access offers for goods, which were least favorable for Mercosul, as limiting their political flexibility to move forward in negotiations.

10. (SBU) Therefore, the GoB is considering and will likely propose to USTR Zoellick a new approach toward bilateral trade relations and/or reformulation of the FTAA negotiations. Local press has identified the following policy options as under consideration:

--negotiation of a U.S.-Mercosul (four-plus-one) agreement is the most often cited option. Antonio Simoes, Economic Adviser to Foreign Minister Amorim, has conveyed that USTR Zoellick should be prepared to discuss this possibility during his meeting with

Amorim on May 28. Itamaraty interlocutors stress that the four-plus-one would be narrow in scope, perhaps limited to tariff-only, and especially that it would be supplemental to FTAA negotiations, not in lieu of. --a reformulation of the FTAA to focus on tariffs, leaving contentious issues for negotiation within the WTO. The GoB is concerned that certain investment and government procurement rules sought by the United States would limit Brazil's ability to pursue an economic development strategy utilizing industrial policies.

--bifurcation of the FTAA process into two stages - the first stage of tariff-only negotiations to be completed by 2005 with subsequent launching of negotiations on the remaining issues. NOTE: However, once tariff negotiations are complete, there would be no guarantee that Brazil would feel compelled to participate in negotiations in the areas it has identified as problematic. END NOTE.

--seeking a delay in the end date of the FTAA negotiations until 2007. Proponents argue that progress cannot be made in the FTAA until the thorny issues of domestic support and unfair trade remedies are dealt with in the DDA negotiations, which are unlikely to conclude by 2005.

--the more remote possibility of a U.S.-Brazil supplemental negotiation. We judge it unlikely that Brazil would pursue such an option at this time, particularly since Nestor Kirchner, Argentina's President-elect, reaffirmed Argentina's solidarity with Brazil's intention to strengthen Mercosul during his trip to Brasilia May 8.

#### Implications

11. (SBU) Itamaraty interlocutors have stressed that all options, even ones they are not promoting, involve continuation of FTAA negotiations. However, cynics warn that delay of the process or reformulation of the negotiations are only more subtle ways of deliberately undermining the FTAA and leading to its eventual demise.

12. (C) If the United States does not agree to any alteration of FTAA substance or process, or to the pursuit of a "supplemental" U.S.-Mercosul agreement, post believes that a "do nothing" strategy by the USG would not precipitate an immediate withdrawal of Brazil from the FTAA. However, it would likely lead to a hardening of Brazilian positions as it seeks to slow down the process and elicit support from other FTAA countries on contentious issues such as domestic support disciplines.

13. (SBU) Complicating Brazil's FTAA analysis is its domestic political scene. Although Lula has widespread support to undertake thorny social security and tax reform, as the administration moves forward with its specific proposals, the debate is bound to become more polarized. Five months into the administration, the government is also walking a fine line between kudos from the market on its stringent macroeconomic policies and the political backlash that may emerge due to the scarcity of resources for social spending that these policies yield. On top of that, PT radicals, supported by some intellectuals and religious leaders, are pressing the government for a referendum on continuing with the FTAA. The GoB would be politically hard pressed at this time to take on additional enemies in support of the currently envisioned FTAA.

14. (C) According to Neto, the Pinheiro Guimaraes group is convinced that Brazil's negotiating position is stronger in a bilateral (4 1) than in a regional negotiation. Itamaraty believes that through a four-plus-one negotiation Brazil can more quickly attain market access for its key products (OJ, textiles, sugar, footwear, etc.), scoring economic and political success that would make continued participation

in the FTAA palatable.  
Underlying this perception is the GoB's fear that the United States will not come forward in the FTAA with substantial, timely market access for key Brazilian products. The policy options being considered by the GoB are designed to avoid a disastrous end-of-day scenario in which Brazil has negotiated issues of interest to the United States (investment, government procurement), and even though not getting what it needs in return, is compelled to sign the FTAA because diplomatically it cannot be left outside the hemispheric pact.

#### Action Request

15. (SBU) In pursuing a four-plus-one negotiation, the GoB may feel emboldened by U.S. negotiations with other countries in the region. However, it seems the GoB may underestimate the obstacles to providing Brazil with the market access concessions it seeks on sensitive products that would be inherent in such an agreement. If the four-plus-one option is a non-starter from the USG perspective, post would appreciate guidance from Washington agencies concerning the need to subtly downplay it prior to USTR Zoellick's arrival. When deliberating on possible USG reactions to GoB trade proposals, post also suggests that Washington consider potential market access carrots, such as movement on some key Brazilian products in the revised U.S. FTAA offer, to provide the GoB with something tangible, but that would keep deliberations squarely within the FTAA and premised on Brazilian movement in all other FTAA areas. Additionally, any forward movement on "discussing" domestic support within the FTAA along the lines envisioned in instructions from the April 8-11 TNC meeting in Puebla could help establish for Brazilians U.S. sincerity in claiming that "everything is on the table" and assist in diffusing the most contentious issue for Brazil in the FTAA.

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